ATIA-14(a)

Infrastructure Canada

UNCLASSIFIED

SCENARIO NOTE TO THE MINISTER

MEETING BETWEEN THE MINISTER OF INFRASTRUCTURE AND COMMUNITIES AND THE HON. SERGIO MARCHI, CEO OF THE CANADIAN ELECTRICITY ASSOCIATION

MEETING DETAILS

- **DATE/TIME**: Friday, December 7, 2018, 1:00 p.m.
- **LOCATION**: 427 Laurier Avenue, 10th Floor
- **PARTICIPANTS**:
  - Hon. Sergio Marchi, CEO, Canadian Electricity Association (see biography at **Annex A**)
  - Hon. François-Philippe Champagne, Minister of Infrastructure and Communities

PURPOSE

- This meeting will allow you to begin developing a rapport as Minister of Infrastructure and Communities with a key stakeholder and to solicit the Association's continued support in advancing electricity projects such as strategic interties.

HIGHLIGHTS/KEY CONSIDERATIONS

- Major electricity projects are critical to achieving the 10 megatonne greenhouse gas (GHG) reduction target set for the Integrated Bilateral Agreements (IBAs).
  - In particular, strategic intertie projects, which will bring clean energy to provinces and territories that remain dependent on fossil fuels, are a key priority for the Government of Canada.
  - Natural Resources Canada (NRCan) – the federal lead for the electricity sector – has identified priority intertie projects between Nova Scotia and New Brunswick, between Saskatchewan and Manitoba, and within British Columbia as good candidates for the IBAs (see **Annex B**).

    [redacted]
  - The advocacy capacity of the Canadian Electricity Association (CEA) could be mobilized to encourage provinces and territories to prioritize these projects under their IBAs.

KEY BACKGROUND

- At your request, Parliamentary Secretary Medicino met with members of the CEA's Board of Directors when they visited Ottawa on November 8, 2018.

- The Association's 2019 Budget priorities (see **Annex C**) highlight the electricity sector's role in enabling Canada's climate goals and promoting energy security in Canada's north.

- [redacted]

  - Due to their generally high project costs, major electricity initiatives could draw heavily upon provincial and territorial Green Infrastructure allocations.

- Infrastructure Canada officials have been actively meeting and engaging with CEA and its members as well as with provinces and territories to identify intertie projects [redacted] Infrastructure Canada is also working with NRCan to assess electricity projects for compatibility with the Bank's investment model (more information on the Bank's investment criteria is available at **Annex D**).

PROPOSED TALKING POINTS/PROPOSED QUESTIONS

- Thank you for your important work advocating on behalf of Canada's electricity sector. I recognize that electricity infrastructure is critical to meeting Canada's climate change objectives, and I am looking forward to working together to help build the foundations for a low-carbon economy.

- I would also like to thank you and your members for meeting repeatedly with Infrastructure Canada officials to discuss electricity infrastructure projects [redacted]

- As you know, to receive support under the bilateral agreements, projects must be prioritized by provincial and territorial governments. I would like to ask for your support in ensuring that key projects are brought forward.

  - Have your members encountered specific challenges in advancing their projects thus far?

- One of your Budget proposals requests a carve-out for electricity projects. I would be interested to learn more about the specific projects that would benefit from dedicated funding.

- If you have further details such as costing information for your key projects, I would appreciate it if you could forward it to my officials.

- I am also aware of your Association's interest in increasing the size of the Arctic Energy Fund. I should note that an additional $622 million is also available for the territories to support electricity, energy efficiency, and other projects through the bilateral agreements as part of their Green Infrastructure allocations.

- [redacted]

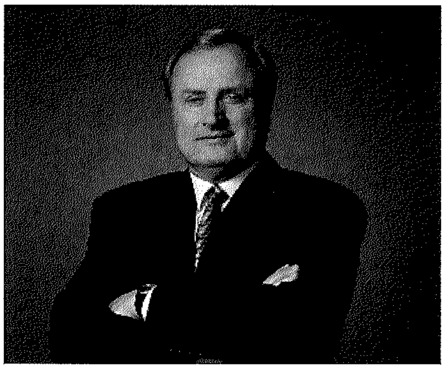
  - The Bank's model is built on partnerships with private and institutional investors. Are CEA members interested in innovative financing mechanisms and in working with the private sector to invest in electricity infrastructure?

Attachments:

Annex A – Biography: The Honourable Sergio Marchi
Annex B – Overview of Promising Interties (NRCan)
Annex C – Canadian Electricity Sector 2019 Budget Priorities
Annex D – Opportunities for Interties under the Integrated Bilateral Agreements and Canada Infrastructure Bank

Sergio Marchi

President and Chief Executive Officer, Canadian Electricity Association



The Honourable Sergio Marchi was appointed President and Chief Executive Officer of the Canadian Electricity Association (CEA) in February 2015. As President of the CEA, Mr. Marchi acts as spokesperson on issues of national concern to the electric utility industry.

The Honourable Sergio Marchi was elected as a Toronto City Councillor in 1982, and was subsequently elected as the Member of Parliament representing the Toronto riding of York West in 1984. During his time in the federal government, he served as Cabinet Minister in three key portfolios: International Trade; Environment; and Citizenship and Immigration.

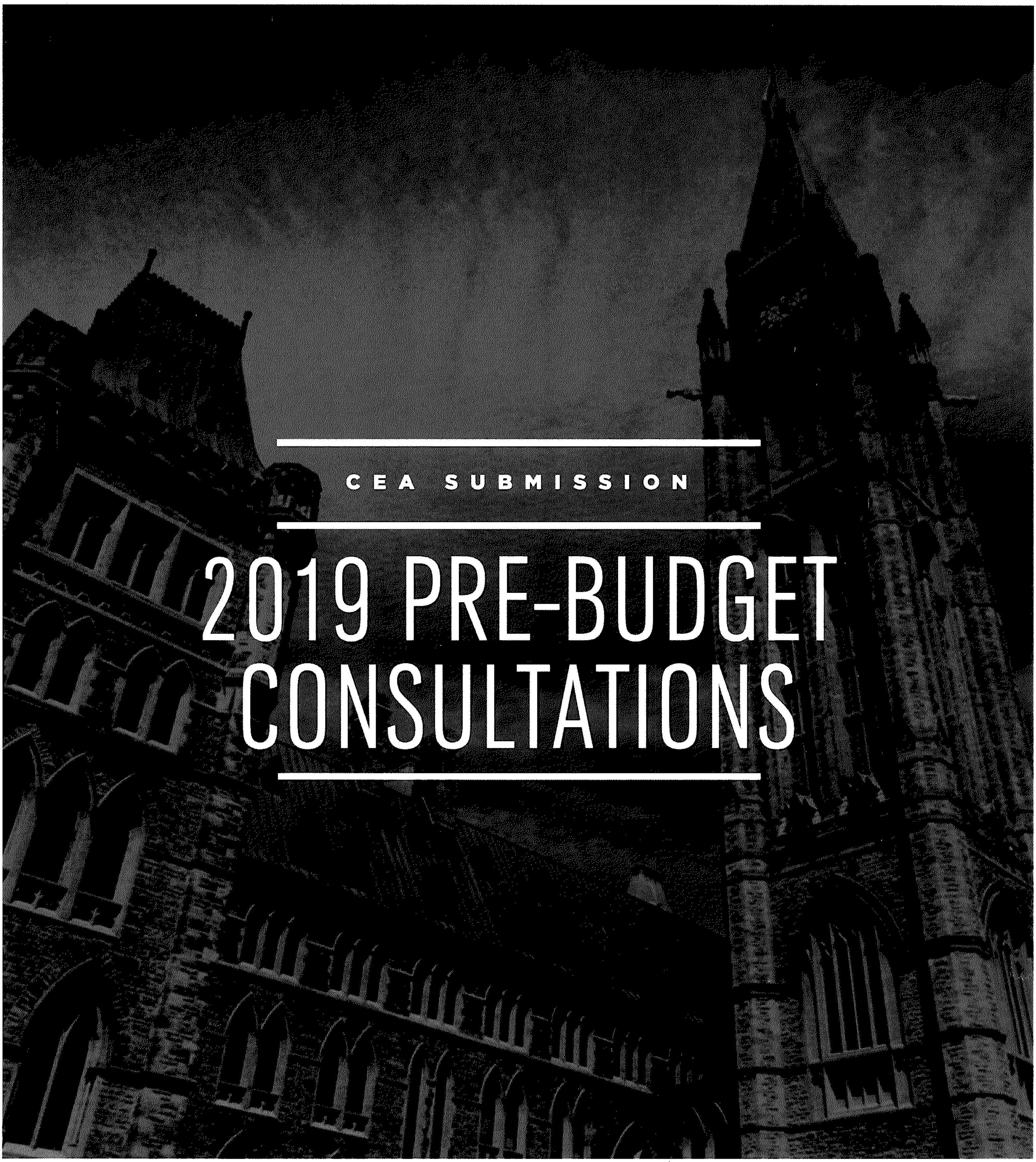
After voluntarily leaving the political arena in 1999, Mr. Marchi was appointed Canadian Ambassador to the World Trade Organization (WTO) and the United Nations (UN) Agencies in Geneva, where he served for five years. In 2003, he was nominated by the Canadian government and the UN Secretary General to serve as Commissioner on the UN Global Commission on International Migration, a position he held until 2005.

Prior to joining CEA, Mr. Marchi held a number of positions in the private sector, and was a frequent public speaker and commentator on international issues, including global migration, international economy, trade, and investment.

Mr. Marchi is also a visiting professor at the University of Ottawa in the Graduate School of Public and International Affairs. Mr. Marchi graduated from York University with an Honours Bachelor of Arts Degree in Urban Planning. He is married, with two children.

POTENTIAL STRATEGIC INTERTIES THAT COULD BE SUPPORTED THROUGH GREEN INFRASTRUTURE INTEGRATED BILATERAL AGREEMENTS

Project	Description	Estimated total capital cost	Potential GHG reductions per year
New intertie line between SK and MB	• Three project options were examined in the RECSI study, with capacity to transfer electricity from MB to SK of 1150 MW, 750 MW or 350 MW. • MB and SK are interested in further exploring the benefits of a new intertie. Utilities believe a new intertie has more value than estimated in the RECSI study due to increased SK wind-MB hydro synergy. The possible benefits could be more significant than initial RECSI results indicate. The provinces have indicated they are interested in working with NRCan to perform a higher resolution study of provincial integration. • IBA funding could address asymmetric costs and benefits between the provinces. [redacted] • IBA funding would help address cost-sharing issues between the two provinces.	\$1.5 B, \$450 M or \$250 M	~ 1.8 MT, or ~1 MT for smaller options
Enhancement of NS-NB interface	• Atlantic RECSI partners determined that this project would be required under any future scenario of generation build out in Atlantic Canada. • Project was cited in the EMMC communique in August 2017. • Benefits to all Atlantic Provinces. Critical project for enabling coal phase-out in NS. • Majority of project costs fall in NB, while most of its benefits accrue to NS. NB and NS would need to sort out how costs and benefits would be allocated. • IBA funding would help address cost-sharing issues between the two provinces.	\$500 M	0.5 – 1 Mt
Grid extensions to remote natural gas extraction facilities in BC	• Consists of 2 distinct transmission projects to extend grid to natural gas production fields in the Montney Basin. • BC identified these projects are priorities in their PCF annex. • Project likely contingent on completion of Site C project for surplus electricity. • [redacted]	\$675 M	~ 1 Mt (TBC)



CEA SUBMISSION

2019 PRE-BUDGET CONSULTATIONS

Canadian Electricity Association | Association canadienne de l'électricité

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RECOMMENDATIONS FOR BUDGET 2019:

Specific Programs

1. Recapitalize oversubscribed NRCan funding programs: Smart Grid, Emerging Renewable Power, Electric Vehicle Infrastructure Demonstration and Clean Energy for Rural and Remote Communities.

2. Allocate funding for a Zero Emissions Vehicle Strategy.

3. Expand investments in northern energy infrastructure.

4. Allocate funding for the development of a National Electrification Strategy.

Broad Policies

i. To attract clean energy investment Canada must ensure a competitive fiscal environment.

ii. Canada's burdensome regulatory environment must be addressed.

Electricity is Canada's "Comparative Advantage" in tackling climate change.

CEA's members have been preparing for a carbon constrained future. Since 2000, our sector has reduced emissions by over 30% and will likely cut emissions by a further 30% by 2030. This is more than any other industrial sector. We are now over 80% GHG free, making our sector one of the cleanest in the world. Electricity can help further power Canada's clean energy transition via the electrification of other industrial sectors.

Clean electricity and its use in electrifying the economy is recognized by the Generation Energy Council in their report *Canada's Energy Transition*, as the key to a nearly carbon free electricity grid and meeting our 2050 targets. The report notes that "There is a bigger challenge and substantial opportunity – in growing our supply of clean electricity by switching more of our heating systems, transportation and industrial processes to electricity."

However, electrifying the Canadian economy will be neither easy, nor cheap. In 2018, 7 of the top 10 largest infrastructure projects are in the electricity sector, totaling $68.125 billion in capital investment. Moreover, the Conference Board of Canada estimates that approximately $350 billion will need to be invested until 2030, just to renew existing electricity infrastructure. It should be noted that these investments are solely for the renewal of their assets and will not get us to the government's goal of 90% non-emitting generation.

Nor does it include infrastructure needed to support electric vehicles, or for the near elimination of fossil fuel-fired baseload generation. This is problematic, as ECCC notes, because a doubling or tripling of clean electricity generation will be needed just to meet 2050 targets. Furthermore, if the electricity sector is to meet more near-term targets, such as the government's PCFCGCC goals, we will require immediate, targeted and sustained federal support, led by a national strategy to ensure our country meets the mission.

Absent a well-thought-out strategy, underpinned by federal support, a ratepayer backlash could arise from increasing rates, and could be directed against the GoC's climate policies and embolden provincial government leaders. This would truly be a lose-lose.

CEA is asking the Federal Government to play a leading role in Canada's clean electricity future.

Innovative and clean energy projects carry risk, including increased financial cost over existing alternatives, despite producing significant economic and social benefits.

Exacerbating this risk, is the fact that provincial and territorial regulators overwhelmingly focus on the need to keep electricity rates as low as possible. CEA recognizes that utilities must be frugal, but we cannot and should not build tomorrows electricity system on the cheap. Instead, we must build the strongest infrastructure possible.

Concentrating on the costs has led to a reluctance by regulators to support pilot projects, innovative technologies, renewable and/or green technologies and the extension of grid-connected service to areas without sufficient ratepayer critical mass such as Northern Canada. In fact, these pilots get routinely denied. This lack of incentives for innovation tends to hinder progress towards increased electrification and muffles the competitive spirit of our members, as they try to find the most cost-competitive innovative technologies to power the electricity grids of the future. It also creates a governance "innovation gap,' where the regulatory and legislative bodies are not aligned.

Enabling the electricity sector to overcome regulatory distortions could enable profound innovation for the benefit of the country and allow Canada to compete as a provider of the clean energy solutions that will underpin the economy of the future. CEA's Center of Excellence (www.electricity.ca/centerofexcellence) showcases some of the success stories that can occur when our sector is given the mandate to innovate.

Only the GoC can provide the broad, inclusive, and pan-Canadian leadership necessary to spur the development of parallel innovation mechanisms across the country that will enable our clean growth future, and lead to thoughtful, strategic, and coordinated progress towards electrification. Developing a dynamic innovation culture in Canada is the task of any federal government.

CEA RECOMMENDATIONS:

We encourage you to focus on four priority program areas:

1. Recapitalize four oversubscribed NRCan Funding Programs.

   Previous Budgets included a down-payment on Canada's energy future. However, the transition to cleaner sources of energy will require sustained investments in both infrastructure and innovation support mechanisms. Four innovation and clean energy infrastructure support programs will expire when their allocated funding runs out: Smart Grid ($100M), Emerging Renewable Power ($200M), Electric Vehicle Infrastructure Demonstrations ($46.1M), and Clean Energy for Rural and Remote Communities ($220M).

   NRCan has confirmed that all these programs were vastly over-subscribed with quality proposals and are expected to deliver the policy outcomes intended. This is very good news.

   We therefore ask that each of these programs be recapitalized, and that expansions of the funding allotments be considered.

2. Allocate funding for a Zero Emissions Vehicle Strategy.

   The electrification of transportation is considered by leading experts and Government officials to be the most significant opportunity for achieving Canada's 2030 and 2050 GHG emission targets. The transportation sector is responsible for roughly 25% of our country's

carbon footprint. The development of a National ZEV Strategy is currently being overseen by your Government.

The advice from the ZEV Strategy Advisory Council was clear. The implementation of the National ZEV Strategy must include expanded public infrastructure support, rebates for home charging systems, and money for public education and awareness.

Canada simply will not bend the EV adoption curve without public investments. ***As a result, we ask that funding for a ZEV Strategy be allocated in Budget 2019.***

3. Expand Investments in Northern Energy Infrastructure.

Access to affordable, reliable electricity must be a basic right for all Canadians. Furthermore, electricity-sector investments enable economic growth. Sparse Northern populations, limited economic diversity, and a high cost of living require unique and innovative approaches. Northern Canadians pay ten times the cost for their energy. This is not fair and must change.

CEA calls on the Government to:

- ***expand the Northern REACHE Program to provide seed funding to support the development of energy projects;***
- ***recapitalize the NRCan Clean Energy for Rural and Remote Communities ($220M), as discussed above; and,***
- ***expand the $400 million Arctic Energy Fund for energy infrastructure.***

4. Allocate funding in Budget 2019 for the development of a National Electrification Strategy.

In order to electrify our economy, the Canadian Conference Board of Canada, estimates that $1.7 trillion will need to be invested by 2050 in national electric power generation.

Considering the sizable investment needed, only the GoC can provide the broad, inclusive, and pan-Canadian leadership necessary to spur the development of innovation mechanisms across the country that will enable our clean growth future, and champion the development of strategic and coordinated national progress towards electrification.

The Government should therefore develop a National Electrification Strategy, and earmark appropriate funding for such an initiative.

Additionally, we propose that the government act on two broad policy fronts:

i. To attract clean energy investment Canada must ensure a competitive fiscal environment.

Federal support for our clean energy transition will not be enough. We will also need private sector investment in innovative clean energy projects. In this regard, Canada's business sectors, from banking

and manufacturing, to energy and natural resources, are united in expressing concerns regarding the current Canadian investment climate.

These concerns stem, in part, from a growing divide with our biggest competitor for investment dollars, the United States, and specifically two increasing competitive gaps: a less attractive tax environment in Canada, and an increasingly complex and uncertain regulatory process for approving large capital projects in the country. This climate is also exacerbated by the uncertainty surrounding the NAFTA negotiations, and the imposition of various U.S. trade protectionist measures.

On the tax front, last year, the U.S. passed legislation enacting various tax reform provisions. Two of the most consequential were a reduction of the federal corporate income tax rate to 21%, and the implementation of full expensing (100%) deductions for qualifying property.

Prior to these changes, the weighted U.S. federal-state combined corporate tax rate averaged 39.1%. This compared with Canada's average federal-provincial rate of 26.7%. In the past, this incentivized corporate profits to remain in Canada and facilitated investments. Now, with the average U.S. rate falling to 26%, Canada's former corporate tax advantage, coupled with economic uncertainty, has now become a disadvantage.

This shift of capital and profits, poses a serious risk. Indeed, at the time of writing, early signs indicate that investment in Canada is beginning to slow. In May, Statistics Canada reported that Canada's FDI rate dropped 26% in 2017, marking the second consecutive year of decline, and bringing FDI to the lowest level since 2010.

A similar situation prevails with Canada's accelerated Capital Cost Allowance (CCA) deductions, which in the past have attracted investments in targeted sectors such as clean energy. However, with the federal corporate tax-rate cut stateside, and the implementation of an even more attractive full deduction for various investments, Canada will soon find its ability to attract capital investment severely undercut.

Thus, to promote Canada's economic competitiveness, the GoC should as an immediate priority consider:

- ***A reduction of corporate tax rates;***
- ***Increases in the rates of, and equipment covered by, accelerated Capital Cost Allowance rate schedules; and,***
- ***Mirroring U.S. moves towards the full immediate deductibility of various capital investments.***

ii. Canada's increasingly burdensome regulatory environment must be addressed with urgency.

Recent federal regulatory developments that increase the regulatory burden facing the electricity sector include: climate regulations such as federal carbon pricing legislation, the Clean Fuel Standard, coal and natural gas regulations; and legislative changes to the project approval process proposed in Bills C-68 (Fisheries Act) and C-69 (IA, CER, NPA).

Moreover, when one factors in provincial and territorial legislative and regulatory actions, this burden becomes dangerously heavy. Indeed, no single government is accountable or responsible for this "cumulative pancaking" of measures. Every jurisdiction is only concerned with its respective layers.

This must change. Led by the federal government, all jurisdictions must work in closer cooperation, in an effort to rationalize and streamline the overall regulatory oversight imposed on the private sector.

All of this comes at a time when the U.S. is moving in the opposite direction. In fact, President Trump declared in the the New York Times that: "To help launch the next phase of growth, prosperity and freedom, I am challenging my cabinet to find and remove every single outdated, unlawful and excessive regulation currently on the books."

Accordingly, this Administration has cut regulatory burden at a record pace. We are not suggesting that regulations should be cut blindly or ideologically. ***Instead, the GoC must review unnecessary and unrealistic regulations that hold our industry back and makes operations more expensive. We urge the GoC to launch an immediate review of Canada's regulatory system.***

CONCLUSION

The bottom line is that progress towards our short and long-term climate goals will require us to utilize our country's comparative advantage in clean electricity generation.

We require a national strategy, and federal support to get us there in a responsible, realistic and coordinated manner. Towards this end, we have proposed four specific program actions, and two critical broad policy proposals for your next budget and to launch an immediate review of Canada's regulatory system.

Combined, these measures should help to ensure our progress towards a clean growth future at the lowest cost to Canadians.

Thank you for your consideration and let us know if we can be of further assistance.

Regards,

Sergio

Hon. Sergio Marchi
President and Chief Executive Officer

Opportunities for Interties under the Integrated Bilateral Agreements and Canada Infrastructure Bank

Integrated Bilateral Agreements

The integrated bilateral agreements (IBAs) could be an effective funding mechanism for smaller-scale intertie projects. The degree to which the Green stream can support large-scale electricity projects such as grid interties will depend on the size of the relevant provincial/territorial allocation and how individual projects balance against other jurisdictional priorities for climate change mitigation, adaptation, and environmental quality. In some cases, a smaller federal cost share might also offer a possible solution for large projects, to prevent the exhaustion of a provincial allocation and allow other jurisdictional green priorities to go ahead.

From the CEA's perspective, the IBAs may not represent the most reliable mechanism for delivering funding to interties, as these projects must compete for prioritization against other assets eligible under the $9.2B Green Infrastructure stream. While the provinces are subject to a mandatory 45% minimum investment floor for climate change mitigation projects within the Green stream, other assets (including public transit) are also eligible under the mitigation sub-stream's outcomes and this, combined with adaptation and environmental quality needs, could limit the availability of Green stream funding. The significant costs associated with interties may further compound the funding challenge. For example, the proposed intertie project between New Brunswick and Nova Scotia could satisfy three quarters of the two provinces' combined minimum floors for mitigation projects.

To be eligible under the climate change mitigation sub-stream, electricity projects must respond to one of two outcomes:

a) Increased capacity to manage more renewable electricity; or
b) Increased generation of clean energy.

Further, all projects supported through the IBAs must produce infrastructure that is for public use and benefit.

The Canada Infrastructure Bank

The Canada Infrastructure Bank (CIB) will invest in projects where federal support could crowd-in private investment that otherwise would not have been attracted to a particular project. The CIB will also not displace private capital seeking investment opportunities. Electricity infrastructure projects may be eligible for CIB support if they crowd in private investment, generate revenue, and align with government priorities. Projects that promote the use of renewable resources or reduce greenhouse gas emissions, including interties between jurisdictions, would align with current priorities for the CIB. INFC continues to work with NRCan to determine if interties or other electricity-sector projects can be structured to meet the Bank's requirements.